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ABSTRACT

The purpose of this study was to determine what effect price discrimination (differential pricing) would have on institutional gross-fee income. Enrollment and tuition data were gathered from all schools in one particular market area for the years 1969-72. In this situation it was determined that overall demand for higher education was highly inelastic with respect to price. Also, women showed greater inelasticity than men, and the percentage changes in price were so large (up to 200 percent) that it might be assumed that factors other than price might affect demand. After isolating price, perhaps the most important factor influencing demand is curriculum differences. The results are reported for related simulation study using transcripts of graduating high school students and five different pricing plans (Author/HSE)

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THE EFFECTS OF PRICE DISCRIMINATION ON THE ELASTICITY OF DEMAND FOR HIGHER EDUCATION

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INTRODUCTION

Many members of the academic community are concerned now with the financial crisis that afflicts all of higher education.[1] It is a particularly vexing problem in that higher education is such a complex phenomenon. On the one hand, there is the desire to maintain academic excellence, promote innovative educational programs, and maintain and enlarge upon what has become an open door for many "new" students. On the other hand, those traditional sources of support upon which higher education relied, local, state and federal governments as well as private philanthrophy, have proved unequal to meet the current financial needs of our colleges and universities.

If higher education is to continue to maintain its vitality, it must look more to itself for support. A failure to approach a level of greater independence will, if allowed to continue, exacerbate an already serious situation. Our elected officials are caught between the requirements of fiscal responsibility and the need to fund already existing programs at ever higher rates. In essence, they have to raise more revenue and spend more money every year just to maintain the status quo. In terms of constant dollars, budgeted increases are minimal, usually no more than 1-2 percent. Fear of voter reaction, or just insufficient

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[1] Earl F. Cheit, The New Depression in Higher Education: A Study of the Financial Conditions at 41 Colleges and Universities. New York: McGraw-Hill, 1972.

revenues have combined to produce large cuts in the education budget. Increased social responsibility is almost beyond the means of many levels of government. In the past, some local governments, notably New York City, operated as fiscal Epicureans. They mortgaged their futures to pay for the present. Todya, New York City, under the leadership of Mayor Beame, is faced with the task of returning to fiscal stability and health without upsetting its entire social service structure.

One possible solution that colleges and universities may adopt is that of differential tuition pricing. This article is based on a study of the effects that differential tuition pricing has on the elasticity of demand for higher education. Basically, differential pricing is a form of price discrimination. It is the sale of the same commodity at two or more prices.

How can this technique of the business world help higher education? There are four important reasons for schools to adopt differential pricing. (1) It is a form of price discrimination, and if the conditions for price discrimination are met, as they are in higher education, this policy will increase institutional gross fee revenue. In the business world price discrimination is often employed to maximize the revenue of the firm. This would not be the focus for higher education. Institutions would be interested in increasing their revenues, not maximizing them. If differential pricing were employed in higher education, it appears that it may permit institutions to generate more

revenue than they could under global tuition practices. (2) Differential pricing is more equitable than global tuition pricing. Students from well-to-do homes will go to college, in most cases, regardless of the level of tuition. If they choose to attend a low cost state school, designed, in principle, for those of more modest means, they could be asked to pay more for the privilege. Why should they pay more for the privilege of attending a public college? It is a well established principle that our social services are available to all, equally. However, it is also well established that the well-to-do pay more taxes in support of these programs than those who are less fortunate. The same principles can and should apply, therefore, to education. The legislature could set the level of tuition at a rate that would be higher than at present, but would still be more favorable than that rate charged at private colleges in the area. Hence, the incentive to save money and attend the public college would still remain. The increased funds raised by differential pricing could be used for scholarships to aid the needy. In effect, the wealthy would pay for more of the education of the poor. (3) As I mentioned above, differential pricing is a form of self-help. The college could appeal to the county or to the state legislatures, or to both for matching funds equal to the amount raised by gross tuition revenues. This concept of matching funds is a well accepted principle in funding higher education. We might consider changing the aid formula now employed by many of our public colleges and universities. Rather than base

the state's contribution on the number of FTE matriculated at a particular college, we could tie state aid to the amount of net tuition income generated by each college. Net tuition income is recommended rather than gross tuition income because this is a way that differences in the economic character of the student body of particular colleges can be reflected. (4) Differential pricing could be considered as another form of progressive taxation. For example, the family with a larger, more expensive home pays a greater tax bill than anohter family living in a small, less expensive home, although the method of taxation is considered to be regressive. The same principle can be used in higher education.

What conditions are necessary for the success of differential pricing? In order for price discrimination to be successful, buyers must be separated into two or more classes whose price elasticities of demand differ appreciably. Furthermore, the product sold to these various classes should differ in time, place, or appearance to keep the buyers from shifting. To what extent have these conditions been met in higher education? Traditionally, the educational market has been segmented in many ways; among these by class, by department, or by enrollment status. Experience indicates that overall demand may be inelastic with respect to price. For instance, the State University of New York charges a higher rate of tuition for upper classmen than for lower-division students without any apparent lessening of demand in either category. As far as product differentiation is concerned, some schools do offer unique curricula or

instructional formats that would allow them to charge different prices for their services and keep the student from shifting to other schools in the same market area.

We may hypothesize, therefore, that demand for higher education appears to be inelastic with respect to price and to curricula. In this study I have observed high tuition private colleges successfully competing with low tuition public colleges in the same market area for the same caliber of student. We may reasonably ask, How can this be so? Colleges often offer curricula that are sufficiently different so that they may charge what is, in effect, a monopoly price for their services. Because these same colleges have been successful in differentiating their product, they have been able to minimize the effects of cross-elasticity on demand. That is, the substitution of lower cost but similar products for the preferred, higher priced product.

However, how can a small, private, liberal arts college, perhaps one in financial difficulty, attract and keep a large enough student body to maintain its vitality? Adequate revenue may not be available to fund new programs with which this college can compete with a neighboring public college. The answers may lie in several areas. Positive aspects of the college should be stressed, such as a low student faculty ratio making possible a high quality education. Of course this college could opt for a differential tuition plan designed to attract and keep students on the campus. Differential rates could be established, so that

only entering freshmen classes would be affected by increases in tuition or fees. Increases in room and board affect everyone, whether or not they live at college or at home, and consequently, these rates should be allowed to float with changes in the cost of living.

In higher education, the student will, and does, pay more if he can translate these higher charges into a job upon graduation. Consciously or unconsciously he measures the return to his education. Observe, if you will, the vitality of business or vocational education programs. This sort of education often costs more than liberal arts or teacher education, because the student in many cases, depending upon the section of the country, is forced to attend a private college for this sort of training. The student pays these higher rates, presumably, because he can earn a higher return on his investment. Low tuition or no tuition schools cannot compete effectively if they are unable to train the student to earn a living upon graduation.

What policy should a college adopt before instituting a program of differential pricing? Before any school could adopt differential tuition pricing, it would have to determine for itself whether or not it had met the necessary criteria for price discrimination. Price discrimination in higher education could take the following forms:[1]

1. Institutions could charge different rates for the

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[1]George Stigler, The Theory of Price (New York: MacMillan, 1967), p. 210.

same services to different classes of students. Quite often lower-and upper-classmen take the same courses simultaneously. Here schools could charge separate rates for the same courses to these different classes of students.

2. Institutions could charge different rates for different services to the same class of students. Every course could carry its own price tag. All freshmen or lower-division students, all of the same class, would pay a different rate for each course in which they were enrolled.

3. Colleges and universities could charge different rates for the same services to the same class of students. For example, if the school wanted to maximize the use of its classrooms, it could charge one rate, a higher one for peak-time class meetings, and another, lower rate, for off-peak time, such as Saturday morning classes. The different rates would apply to different sections of the same course.

In an effort to alleviate their financial plight, colleges and universities do seek out alternative methods of increasing revenue. Differential pricing is just such a technique. An example of this policy is the tradition, in public institutions, of charging a low tuition for residents, and another much higher rate for non-residents. However, this policy is now being challenged in the courts, and it is doubtful that the colleges will be able to continue to employ this form of price discrimination. Certainly, colleges will have to look elsewhere to find alternative sources of revenue to make up for this potential loss.

What are some of the proposals that have been offered to colleges and universities? Recently, the Carnegie Commission[1]

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[1]See article by Fred Hechinger, New York Times, February 5, 1974, referring to opposition to this plan led by Representative James O'Hara, Democrat, Michigan.

and the Committee for Economic Development[1] proposed that net tuition, at least in the public sector, be based upon family income. When this proposal was first published, the newspapers were full of objections voiced by the middle-class. It was this group that the Carnegie Commission singled out as not bearing its true share of the cost of public higher education. However, because of the political clout that the middle-class possesses, it is doubtful that this proposal will be adopted. Myron H. Ross[2] and James Steve Counelis[3] both offered variable tuition proposals. Ross' thesis is that "a variable tuition policy could save money by equalizing enrollments throughout the year." Essentially, his proposal was to charge two rates, peak and off-peak rates. I reject this particular approach for higher education, because I feel that it would cause too much dislocation if students tried to register for classes in the off-peak semesters to save on tuition charges. However, some schools, notably Dartmouth College, do employ this sort of approach. James Counelis proposed an instructional factors matrix approach to tuition pricing. I

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[1]Committee for Economic Development, The Management and Finances of Colleges (New York: The Commission, 1973).

[2]Myron H. Ross, "How to Save $1 Million: Vary The Price of Tuition," College and University Business 54 (February, 1973): 47-48. The author's thesis is that "a variable tuition policy could save monty by equalizing enrollments throughout the year."

[3]James Steve Counelis, "Tuition Pricing: An Instructional Factors Matrix Approach," New York: Educational Resources Information Center, ED 031170.

believe that this pricing mechanism is suitable for higher education, and in fact, it is one of the pricing techniques that I employed in this study.

THE DIFFERENTIAL TUITION PROPOSALS

Below are those proposals that were accepted and those that were rejected, as well as the reasons for rejection. To be accepted, the proposals had to meet the following criteria:[1]

1. That the school has the ability to segment the market;
2. That price elasticity of demand must be below unity;
3. Reasonableness; that is, the proposal could be employed readily, and that the school would not have to make any basic adjustments to institute the desired proposal(s).

There is no implication that these proposals are exhaustive. Certainly, a fertile mind could conceive of other viable proposals. Proposals one to five were accepted because they met the above criteria for selection, while proposals six to ten were rejected because they failed in some way to meet these standards.

1. Vary tuition by level of student: one rate for the lower level, freshmen and sophomores, and a higher rate for upper level students, juniors and seniors. The intent here, is for tuition to bear some relation to costs of instruction per student, which do vary by level. Such a proposal would vary in the case of the community college. Here, tuition would change for each of the two years, lower for freshmen higher for seniors. The SUNY system uses this tuition technique.

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[1] Robert Dorfman, Prices and Markets (Englewood Cliffs, N.J.: Prentice-Hall, 1967), p. 20.

2. Vary tuition by department: this study will determine what percentage of instructional budget each department consumed and what percentage of total credit-hours of enrollment each department contributed. Tuition could be lower for those departments generating more credit-hours of enrollment than they consume in the budget and higher for those departments which do not generate sufficient funds to cover their budgets.

3. Vary tuition by level of course and technique of instruction: an introductory lecture course could carry a lower price tag than a senior seminar. Again, the purpose, here, is to have tuition bear some relationship to instructional costs. The level of the course and the amount of time the instructor spends per student affect costs, and this proposal will make tuition reflect these costs.

4. Vary tuition by using a two tier system: the student pays one charge when he is enrolled as an undergraduate and another fee spread out over twenty years, contingent upon the graduate's income. The base rate would be similar to current tuition charges, and the contingent repayment plan would be similar to that which is employed by contingent repayment loan schemes. Under the two-tier system, schools might be able to increase the base rate less than under traditional methods and rely upon future income to make up the difference. This technique might make education relatively less expensive for women if they chose not to work after graduation. Income can be projected forward at the same rate that income for this class of people has grown in the last twenty years.

5. Vary tuition by charging more for part-time students than for full-time students: full-time students really pay more for their education because of foregone earnings; and therefore, part-time students should be expected to pay a higher tuition.

6. Vary tuition by level of family income: this concept is rejected on economic, political, and social grounds. As far as economic factors are concerned, in most other areas (health, fire and police protection, or public, primary and secondary education) the rate charged for the service is not dependent upon family income. For example, the rate charged by a hospital for a semi-private or a private room is not dependent upon the income of the family. Nor for that matter, is the speed with which the police and the fire departments respond to a call for services dependent upon family income. To be fair, however, some doctors provide their services at

different prices based upon the patient's ability to pay. However, as a matter of practice they tend to charge a single rate for their services. Although the Carnegie Commission has advocated this method of variable tuition, I believe that because the burden would fall primarily on the middle-class, this proposal would fail to pass the state legislatures. Indeed, it appears already to have raised a storm of protest.

7. Vary tuition on the basis of residency: this proposal has been used in the past and it meets the criteria of providing the same service to different classes of students at different rates. However, it has been challenged in the courts, and the probability of its continued use by state schools is in doubt. It is precisely because the courts have rejected this proposal that schools must now cast around for alternative ways to raise much needed revenue.

8. Vary tuition for each incoming freshmen class and hold this rate constant for the student's four years: this proposal meets all the criteria mandated by price discrimination, but it falls short on practicality. In today's volitile world, no organization can safely price its product months in advance, let alone four years in advance. There is, however, at least one college that does employ this method. Recently, the trustees of a small, liberal arts college adopted a varient of this technique. They will charge different rates for each class, with freshmen paying the highest rate, sophomores less, and juniors and seniors somewhat less but identical rates. The Trustees of this college reasoned that this kind of tuition policy would be an incentive to students to maintain their matriculation at this college. As rates remained constant or increased at other colleges, their tuition schedule would, in fact, decline. In the future, as need dictates, the Trustees plan to increase the charges for entering freshmen, and discount these rates by a fixed percent for successive years as the student progresses through this college.

9. Vary tuition by the profession of the graduate: this proposal might be acceptable on the graduate level, but it is inappropriate for undergraduates. How can we determine the average income of an undergraduate history or arts major? There is no professional standard for the undergraduate liberal arts major. In addition, many undergraduates choose different majors or professions in graduate school.

10. Vary tuition for each semester: the school would charge the highest rate in the Fall, a lower rate in the Spring, and a lowest rate in the Summer. Charging peak season or period rates and off-season rates is a common practice in many industries. It is employed widely in the hotel and travel industries, as well as by such public utilities as electric power and telephone companies. Colleges could employ this technique, but I thought that it would produce too much dislocation because of the traditional time of high school graduation and the established practice of the summer job. If many colleges adopted this practice, they would have to face a staffing problem as well as the necessity to renegotiate faculty contracts to take into account an extended school year.

ANALYSIS OF THE DATA

How would differential pricing work in practice? Before we could decide whether or not differential pricing would work, we had to determine if college enrollment, at least in this market area, was stable, increasing, or declining. An examination was made of all classes of enrollment for the years 1969-1972. During these years, total enrollment, at least at these colleges, remained relatively unchanged even while this state was experiencing an eleven percent decline in high school graduates going on to college. From the evidence at hand, we can conclude that the stable enrollment situation at these colleges was not the result of increasing numbers of students demanding admission to the college of their choice.

TABLE 1

Comparative Elasticities with Respect to Price
Among Colleges in this Market Area, 1969-72

College	%Change in Enrollment	%Change in Tuition	Elasticity Value
W.R.S.C.	15.6%	208%	.075
Urban U.	8.2%	30.8%	.266
S.G.C.	5.2%	55.5%	.094
E.C.C.C.	15.5%	100%	.155

However, I was not satisfied with this particular measure of demand, changes in enrollment, and as a consequence, I employed first-time full-time students as a more precise indication of the true demand for a college education. After all, total enrollment may remain high for a short period of time because of sunk costs on the part of some students. However, if the level of tuition hs been set too high, its effect will be observed more readily by a decline in enrollment in first-time students. Again, in spite of some extraordinary percentage increases in the level of tuition, demand continued to be strong. It appears, at least from the evidence at hand, that enrollment is affected by tuition, but that it remains relatively inelastic. That is, the percentage decrease in enrollment is less than the percentage increase in tuition. (Please see Table 1) What is more important, as far as each college is concerned, is that in every case, in every year, gross tuition revenue increased even if enrollment decreased somewhat.

The purpose of this study was to determine if differential

tuition pricing would produce more revenue for the college, and what effect it would have upon enrollment. From an analysis of the data, we found that even in the face of a 40 percent increase in tuition at our subject school, enrollment showed a modest increase. Consequently, I felt safe in limiting my variable tuition plans to a maximum increase in charges of 25 percent. (Please refer to Table 3 for a comparison of the results of these plans.)

Now, let us procede to examine the effects of variable tuition pricing at West Rock State College. The first plan employed was to charge different rates by the level of the course and by the type of instruction.

We can see that under this proposal, the average student would have to pay about 6.9 percent more for his or her college education. Although the average student paid 6.9 percent more than the global tuition charge, some students paid much more while others paid less. In fact, the global rate of tuition increase at this school was 116 percent, and 40 percent without any loss of enrollment. Since the average rate of tuition increase under this differential proposal would be 6.9 percent, we can assume that demand would be highly inelastic with respect to price.

The next program employed was to vary the rate of tuition by the cost of the departmental program. In effect, what was done here was to compare the credit hours of enrollment generated by each department to the percent of the instructional budget each department consumed. If the cost per credit hour of enrollment was more than 25 percent above

TABLE 2

COMPARISON OF INCREASES IN FULL-TIME GROSS REVENUES ($)

SCHOOL	YEAR			
	1969	1970	1971	1972
West Rock State College	1,027,013	1,149,304	2,522,160	3,667,572
Sleeping Giant College	2,689,200	3,451,850	3,787,600	4,401,600
Urban University	2,855,000	3,219,750	3,718,440	4,043,355
Elm City Community College	73,400	95,200	153,750	171,600

TABLE 3

COMPARISON OF GLOBAL TUITION CHARGES TO DIFFERENTIAL TUITION CHARGES BY CATEGORY

Global Charge	Charge By Course Level And Type of Instruction	Charge By Cost of Departmental Program	Charge By Level of Student Upper/Lower	Charge By Enrollment Status - Full-Time - Part-Time	Charge By Projected Future Income
	+6.9%	+10.9%	+26.9%	*	+23.3%
$94,496.99	$101,051.89	$104,786.56	$120,005.38		

Note: The various percentage figures refer to the increase or decrease in amount charged under the various proposals when compared to the actual charge.

* The differential rate is the actual rate in this case. Part-time students actually paid 180 percent more for the same education than full-time students did during the years 1969-72.

the actual credit hours generated by that department, a maximum rate of 25 percent was assumed. By comparing the differential charges by departmental costs to the differential charges by instruction and course level, we can see how, in some cases, the student would pay less and in other cases more. Under this system, the average student paid 10.9 percent more than he would have under the global tuition plan in existence.

The next variable charge employed was to change the rate of tuition by the level of the student. We simply charged all upper-division students 25 percent more for the course, regardless whether they were taking a basic or an advanced course. Under this system, perhaps because of the sample that was drawn, the average student paid 26.9 percent more for his education. The college may enjoy greater revenues than the hypothetical case reveals, because of the effects of transfer students. In many cases these students come to the school and are required to take some core courses. They would take these courses as perhaps juniors or seniors, when under normal conditions they would have been taken as lower-division students. Because of the transfer situation, these same courses generate greater revenues than would ordinarily be the case. If this plan had been put into effect in 1969, it might have worked out differently for a hypothetical freshmen. Please refer to Table 4. Tuition was, in effect, the same as the global rate for 1969 and 1970. In 1971 and 1972 the rates were increased over the global rates by 25 percent. The result of this program was a hypothetical

increase in tuition income of 18 percent.

TABLE 4

VARIABLE TUITION BY LEVEL OF STUDENT
LOWER DIVISION - UPPER DIVISION

YEAR	GLOBAL TUITION ($)	VARIABLE TUITION ($)
1969	169	169
1970	172	172
1971	372	465
1972	522	652.50
Total	1,235	1,458.50

Note: The variable tuition rate and the global tuition rate would be the same for the first and the second year of college. When the student enters the upper division he pays the variable rate. Please compare the figures for 1971 and 1972.

The fourth proposal was to charge a lower rate for full-time students. The reasoning here is that because of foregone earnings, full-time students really pay a high rate of tuition. West Rock State College already has a plan like this in effect. In the past, in spite of the fact that the part-time rate was much higher than the full-time rate, demand remained relatively inelastic. However, in 1971 an unexpected situation occurred. Tuition rose for the full-time students but remained unchanged for the part-time students. We might have expected, however, a decrease in full-time enrollment and for part-time enrollment to remain unchanged. Instead, full-

time enrollment rose nearly 1.5 percent while part-time enrollment fell by nearly 30 percent. In 1972 full-time tuition rose again, and enrollment showed a gain of 3.63 percent. Part-time tuition was increased by 20 percent, but was followed by a decrease in enrollment of 5.5 percent. It appears that the part-time student is somehow sensitive to the price of full-time tuition. Perhpas when the full-time rate went up, the increase may have priced this sort of education out of the market for these part-time students. A substantial number of part-time students ultimately enroll as full-time students. It is possible that demand, at least for this category of student, is elastic with respect to price. It may be that very large increases in tuition discouraged this class of student from seeking further education at West Rock State College. Before we could be certain, we would have to test further to determine the elasticity of demand of part-time students. In Table 5 we can see the effects of a dual pricing system by the enrollment category of the student. In the past, the tuition differential between full-time and part-time students appeared to have little or no effect upon demand. What does seem to matter is that the part-time students appear to be more sensitive to price than the full-time students, even when this price increase does not affect them directly. Perhaps they have a more narrow overall range for the total price of their education. At any rate, I could find no evidence of these students transferring into any other schools in this market area.

TABLE 5

VARY TUITION BY CATEGORY OF STUDENT,
FULL-TIME AND PART-TIME

VARIABLE	1969	1970	1971	1972
Tuition	$322,800	$423,600	$303,120	$343,872
Part-time..	13,450	17,650	12,630	11,940
Total.....	$336,250	$441,250	$315,750	$355,812
Tuition, Full-Time Total....	$70,370	$97,089	$150,350	$199,438

% DIFFERENCE BETWEEN FULL-TIME AND
PART-TIME TUITION CHARGES

1969-378% 1970-354% 1971-110% 1972-78%

Note: Between 1969 and 1972, part-time students paid 180% more for the same education than did full-time students.

The last proposal made in this paper is to charge a flat rate for tuition and to place a surcharge on top of the student's earnings for the next twenty years. In effect, this is a contingent repayment plan whereby the student pays the global tuition rate while in college and one-sixth of 1 percent of future income for the next twenty years. Although under this plan the total repayment is assumed to be $560.94, the present value is determined to be $288.00. Adding this $288 to an actual $1,235 that would have been expended on tuition during 1969-72, we have a differential total of $1,523. Thus, under this plan, the school would possibly generate 23.3 percent more in tuition revenues as expressed in current dollars. Perhaps this plan may be more suitable to those schools having ahigher proportion of male than female graduates. In the past, far more male graduates were found to be working ten years after their graduation than female graduates. Therefore, the assumed rate of employment among women graduates might affect the percentage of future income charged by the school, since the desired revenue would have to be supported by future graduates. However, this in no way affects the ability of the proposal to generate needed revenue. In effect, it is a long-term compulsory alumni donation.

RECOMMENDATIONS AND IMPLICATIONS

We might reasonably ask, at this time, What are the implications of this study? Can any school employ price discrimination successfully on the basis of the research set

forth in this study, or is more investigation required before this tool can be employed with any certainty. An analysis of the data gathered for this study tended to show that women had a less elastic demand for a college education than men. What sort of implications does this have for all-male colleges or for coeducational institutions? Would these schools be at a competitive disadvantage with colleges that had either an all-female enrollment or a large majority of female students? This might be so in the short run, but as more women seek careers and enter into the labor force on a permanent basis, we may expect them to judge the value of their education in the same way that men do now. That is, they will tend to measure the value of their education more in economic terms and less in cultural ones. We must remember, of course, that differential pricing is a form of price discrimination. It can help to increase badly needed institutional revenues only as long as demand continues to remain inelastic with respect to price. Every school should study its own problems to determine which differential pricing mechanism is best suited to its particular needs.

Because of the apparent paradoxical relationship between price and enrollment in higher education in this area, it is possible that factors other than price may have a more significant effect upon demand than the level of tuition. In support of this thesis, I recommend that the reader examine the situation at the private colleges. They charge more for their services than the public colleges, and yet, many of them continue to compete successfully with the public

colleges. Consequently, some factor other than price must be at work influencing the enrollment decision. Perhaps the answer lies in the fact that the private colleges have been able to differentiate their product from that which has been offered by the public colleges. Those colleges that have been unable to find special service to offer are placed in the situation where they must compete with the state treasury in the long run.

I suspect that the most important aspect of differentiation lies in the area of curriculum. Although the focus for many colleges is still the traditional liberal arts program, educators must accept the fact that only a relatively small number of students want or need a traditional, classical education. Today, we are a credentials oriented society and many students attend college to prepare themselves for a profession or a vocation. Some institutions of higher education might find it more feasible to reorient their goals to match, more closely, the career aims of their students. It is both economically unproductive and intellectually unrewarding to insist that students fit into an educational mold that may no longer have relevance for many of todays "new students." Low or free tuition college does not adequately compensate the student if he cannot find a job upon graduation. In that case the rate of return on his investment in higher education is zero. Perhaps he will feel cheated, and all he will remember from this experience is that the traditional values of education, economic and social mobility, have been denied him.

After considering all the evidence, I recommend the following:

(1) that colleges adopt differential pricing to increase institutional revenue;

(2) that colleges recognize that they are service agencies, and actively seek out that which the market requires;

(3) that colleges conduct careful research studies so that they will be better equipped to predict the career aims and enrollment trends of their potential students.

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